

# **System1 Interim Results**

## **November 2020**

**System1**  
The Effectiveness Agency



# Financial Performance

6 months to 30 September 2020

**System1**

The Effectiveness Agency



# Profit & Loss H1

	2020	2019	Change £m	Change %
Adjusted Revenue	10.1	13.6	-3.5	-25%
<b>Adjusted Gross Profit</b>	<b>8.6</b>	<b>11.5</b>	<b>-2.9</b>	<b>-25%</b>
Adjusted Operating Costs	-8.2	-9.6	-1.4	-14%
<b>Adjusted Profit Before Tax</b>	<b>0.4</b>	<b>1.9</b>	<b>-1.5</b>	<b>-83%</b>
Statutory (Loss)/Profit Before Tax	-0.4	1.4	-1.8	-126%
Tax Charge/Credit	0.5	-0.5	1.0	NA
Statutory Profit After Tax	0.1	0.9	-0.7	-86%

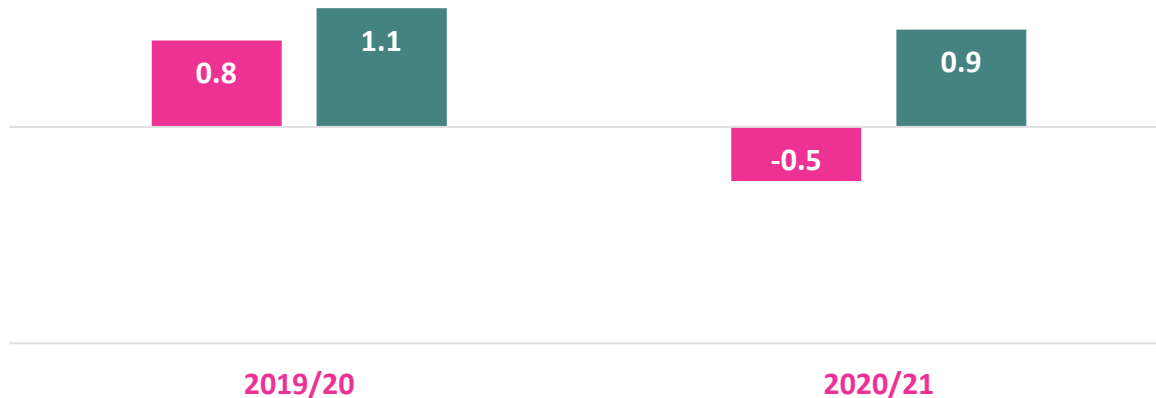
# Progress in Q2 on Q1

*Adjusted Gross Profit (£m)*

■ Q1 ■ Q2

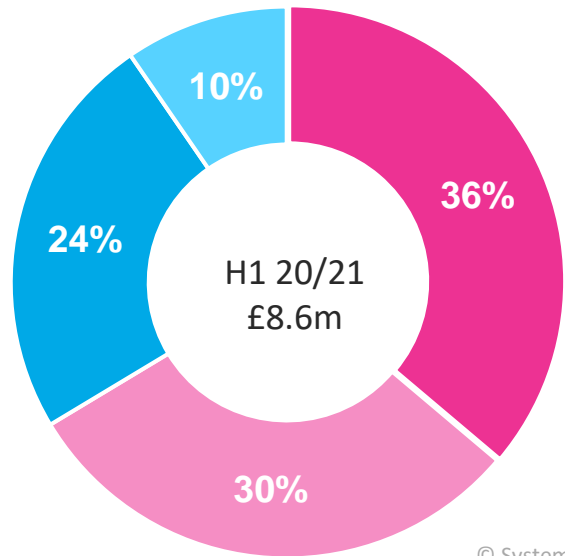
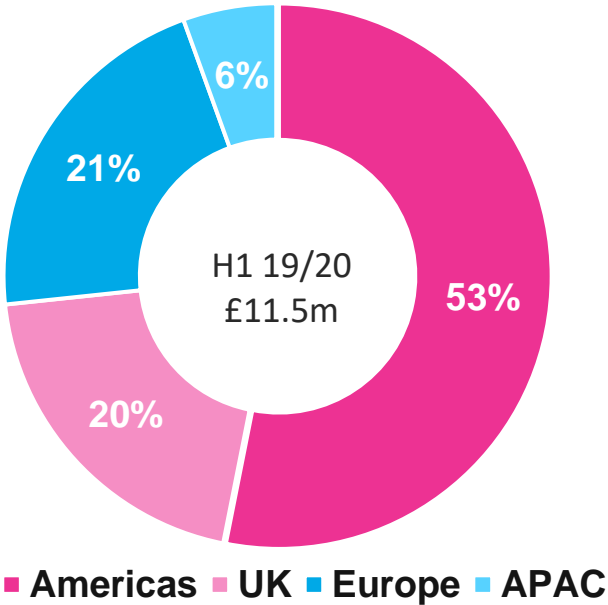
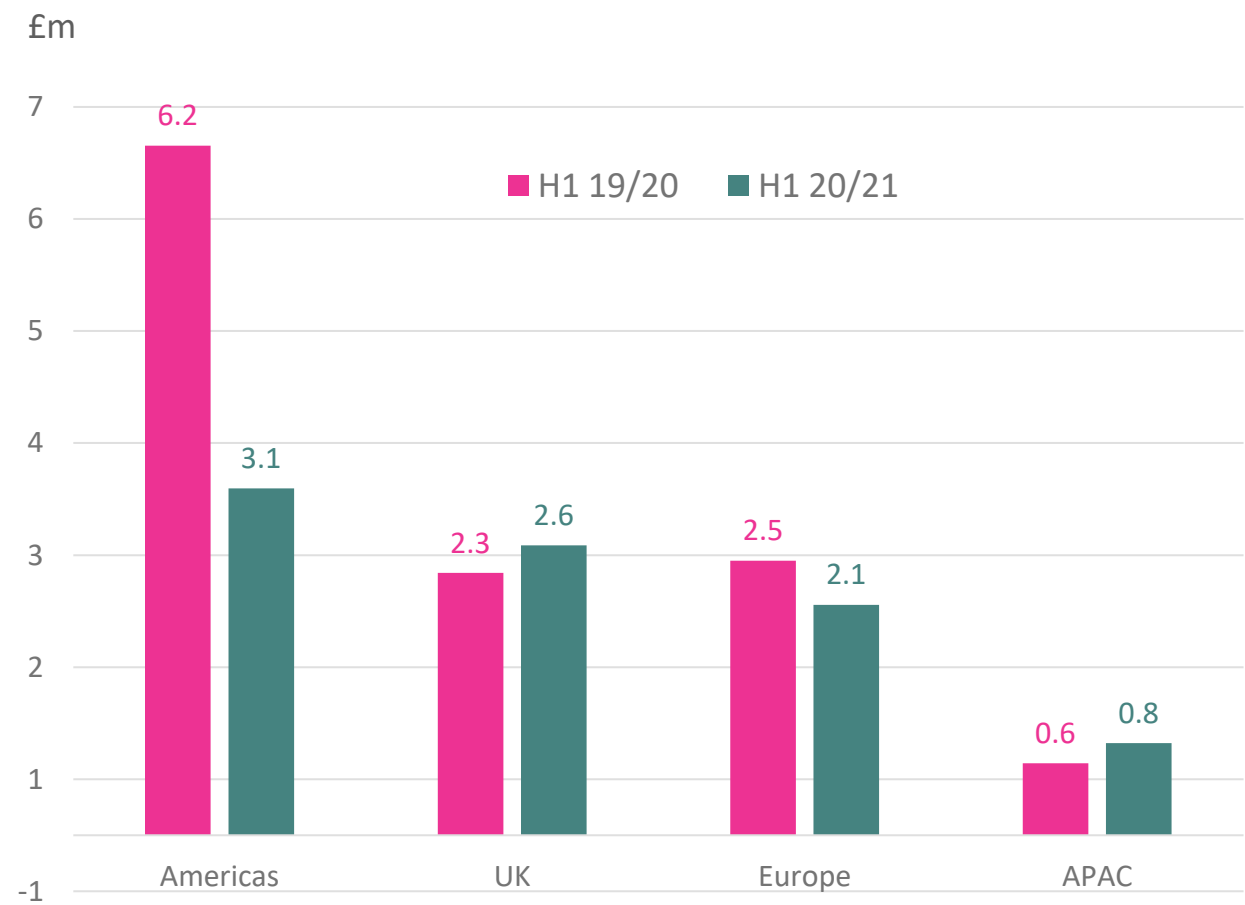


*Adjusted Profit Before Tax (£m)*

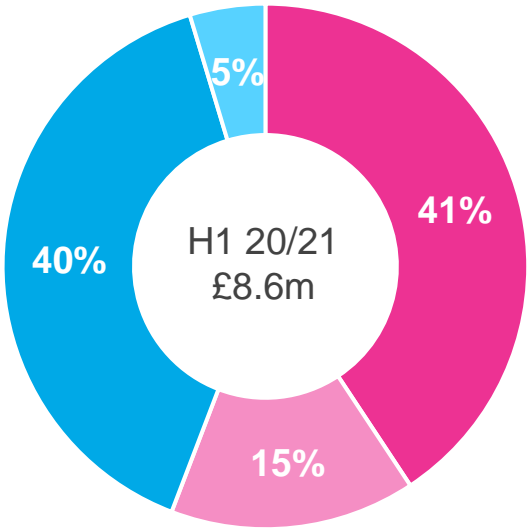
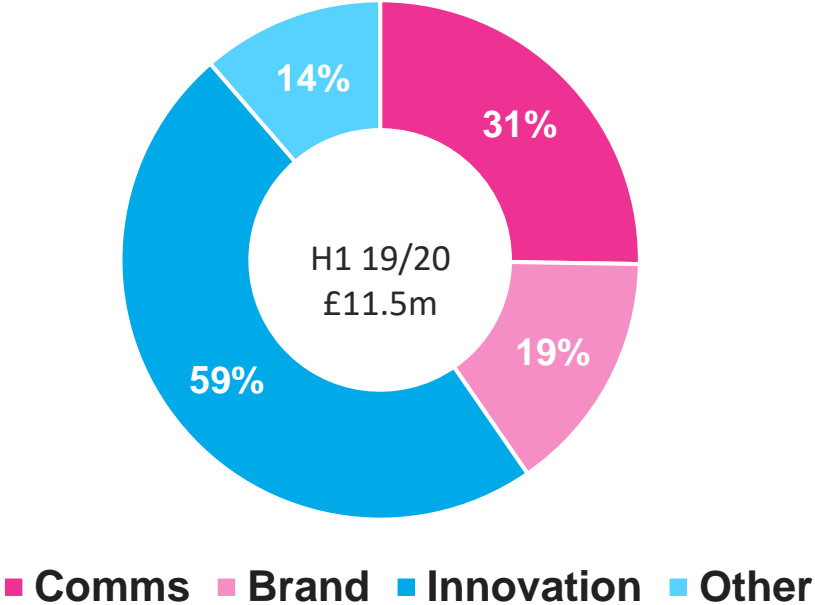
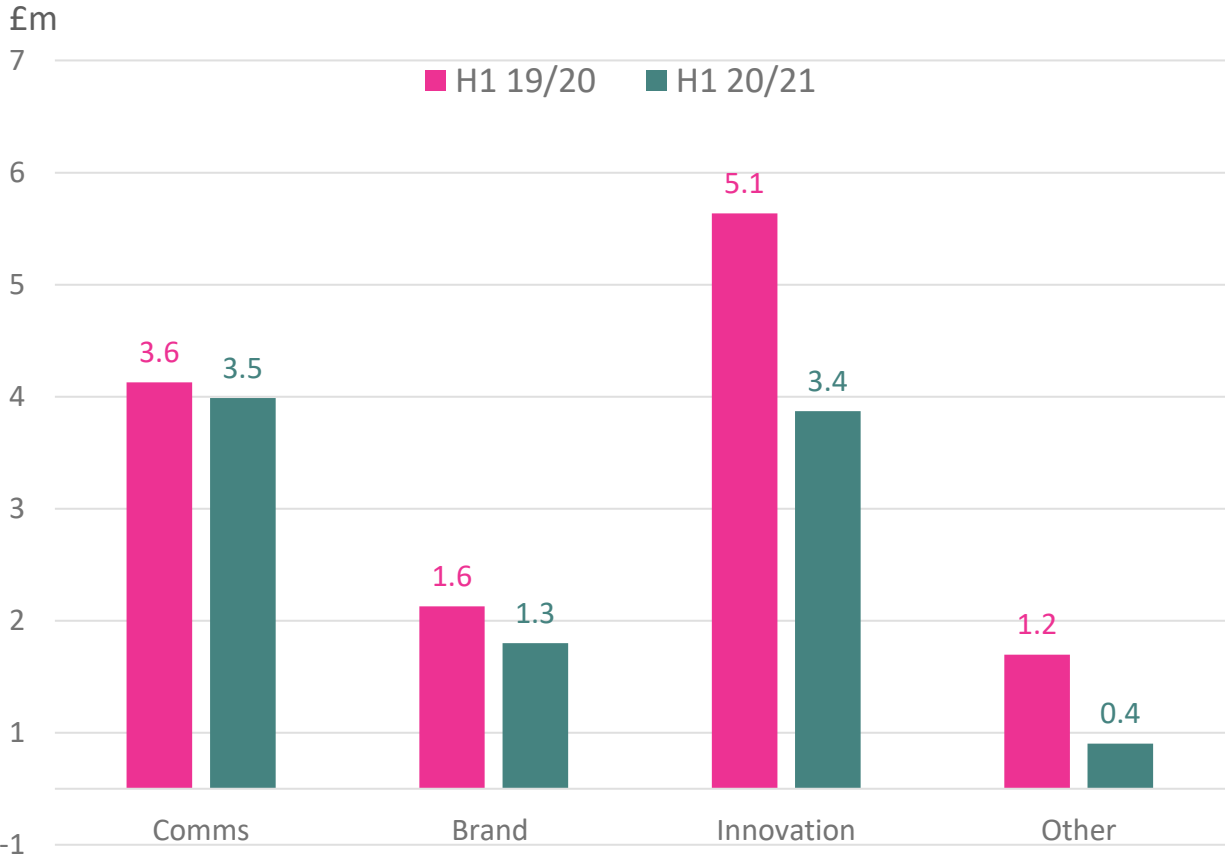


- Q1: 32% decline; Q2: 18% decline
  - Quarterly average GP last year £5.3m
  - We are currently trading ahead of Q4 20-21 (£4.4m)
- 
- £1.3m of the £1.5m H1 profit decline occurred in Q1
  - Expenditure remains under control: Q2 adj profit down £0.2m on GP £1.0 lower

# H1Gross Profit by Region



# H1 Gross Profit by Product Group

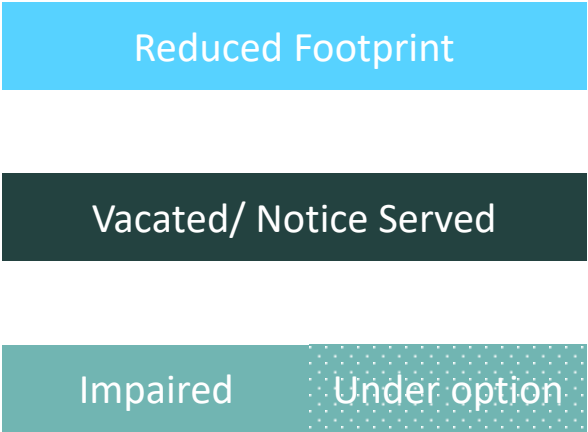
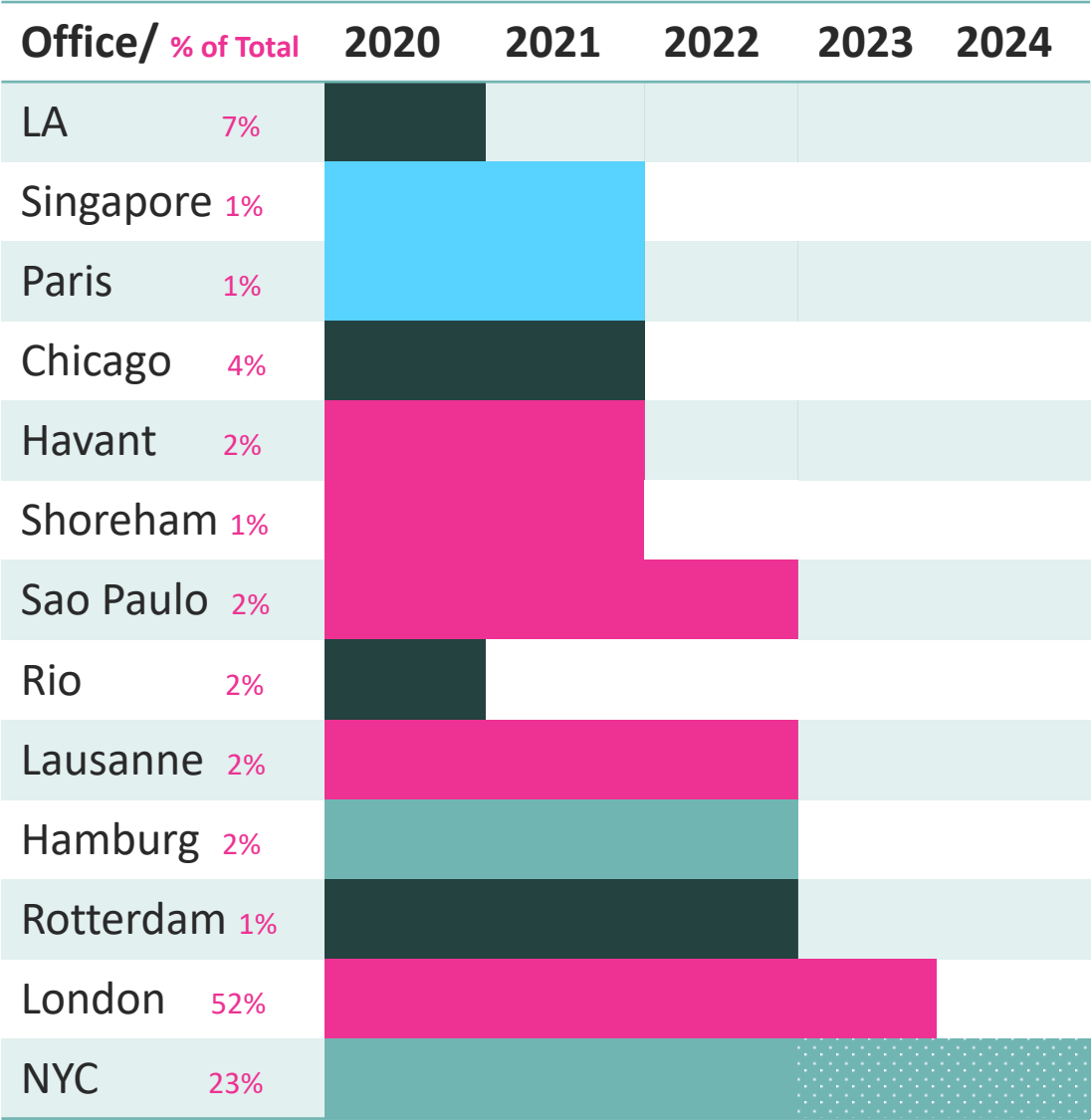


# Cashflow & Funding

£m	H1 2020/21	H1 2019/20
(Loss)/Profit before tax	(0.4)	1.4
Tax received/(paid)	0.5	(0.2)
Property lease payments	(0.6)	(0.6)
Working capital movements	(0.2)	(0.6)
Non-cash movements	1.8	0.8
Capex	(0.1)	(0.3)
<b>Cash Flow Before Financing</b>	<b>1.0</b>	<b>0.5</b>
Dividends	-	(0.8)
Net cash from borrowings (PPP)	0.5	-
<b>Cash movement</b>	<b>1.5</b>	<b>(0.3)</b>
<b>Closing Cash at 30 September</b>	<b>8.0</b>	<b>4.1</b>
Borrowings	(2.9)	-
<b>Net Cash at 30 September</b>	<b>5.1</b>	<b>4.1</b>

- **Period-end Net Cash up £1m on H1 and FY2019/20**
- **£0.5m R&D Tax Credit received**
- **£0.5m under the PPP scheme: reported as Borrowings but confirmed as forgiven in full in November**
- **No interim dividend**

# Office Portfolio Changes in 2020





# Future Reporting

- New finance & operations system (D365) up and running since October
- Better line of sight to normalised operational performance via adjusted metrics
- “Democratisation of data” inside the business
- More emphasis on Data (“Blue”) v Consultancy (“Yellow”) revenue streams to align with automation strategy
- More emphasis on Revenue and adjusted PBT; less on Gross Profit
- Less emphasis on product groups

# Summary

- Sales momentum has grown from a low Q1 base
- Americas down 50pc in H1, recovering well since September
- We are winning in the UK specifically -- and with Test Your Ad generally
- Operating business as usual expenditure remains under control
- Operating cash flow £0.5m up on H1 last year – helped by tax credit
- Important strategic investments in people, product and systems have been maintained and protected throughout the period



**Test Your Suite**

# **Strategy, Execution & Progress**

November 2020

# **System1**

The Effectiveness Agency

Market Research  
\$42bn

Advertising  
\$900bn

Marketing  
\$1700bn

**Every year \$900bn is spent on Advertising. Over 50% has little or no effect & yet only 0.1% is spent testing whether an Ad will work**

2% Ad pre-tests \$0.9bn  
6% Brand-track \$2.7bn  
7% Idea-testing \$3.1bn

Future Performance



# MISSION

We empower every marketer to create effective ads,  
launch successful new products & improve brand equity

# VISION

Let's be the insurgent, transform the industry,  
& put a dent in the Marketing universe

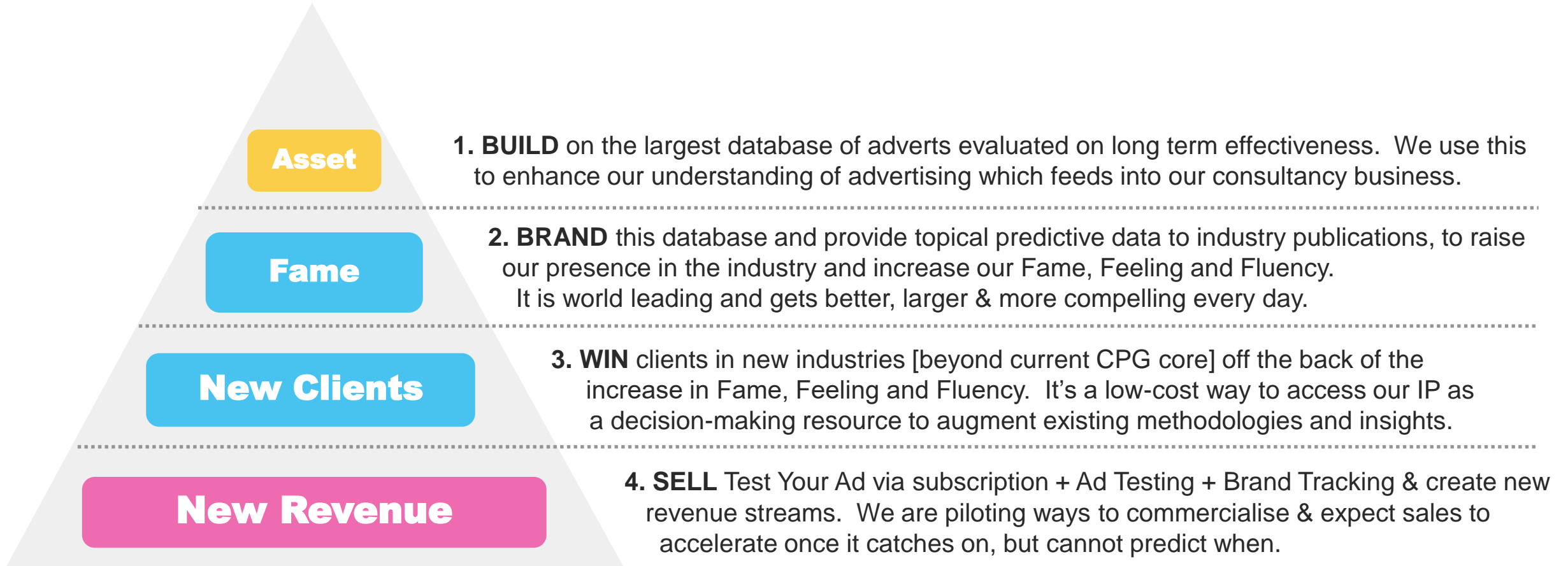
# GOAL

Undisputed #1 for predicting & improving  
Marketing Effectiveness





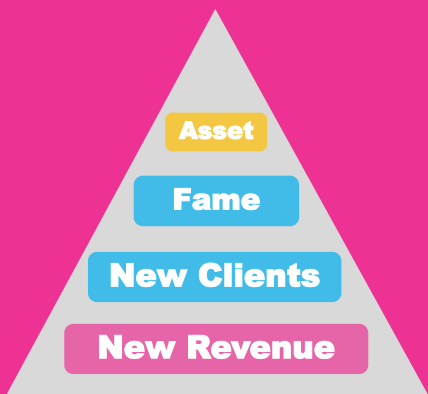
## Goal Hierarchy: sequential & progressive (since Sept 2018)



Lemon Digital | If emotional response is important on TV, it is imperative online.



Asset

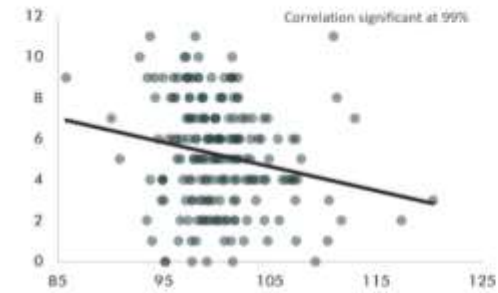


“The importance of Orlando's research in an increasingly digital advertising market cannot be overstated. It should serve as a massive wake-up call to the armies of digital marketers who have preached the ‘timely and relevant information’ mantra for the last 20 years and rejected the idea of entertaining advertising: they urgently need to rethink, if online video is to sit at the top table of long-term ad effectiveness and profitability.”

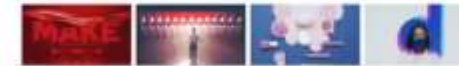
*Peter Field Co-author ‘Long & Short of It’*

The same right-brain features also attract and sustain our attention

Total no. of ‘left brain’ features in ad

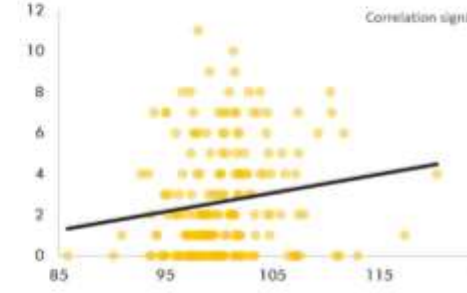


TVision's Creative Attention Score



‘Frontality – Instruction – Product’

Total no. of ‘right brain’ features in ad



TVision's Creative Attention Score



‘Character – Incident – Place’

System1 EFFWORKS IIPA TVISION An audit of 101 US TV ads using Spring/Summer 2020 which had been considered / tested by both S1 and TVision. © System1

Right-brained video campaigns generate broader and longer effects



System1 EFFWORKS IIPA Note: 31 BVA campaigns that used online video 2014-2020 where creative was available for analysis (140 video assets) © System1



First Aired From:

May 2001



Country:

UK



Category:

2020 Christmas Ads (UK)



☐ Include Results from My Ads

First Aired To:

Nov 2020



Sort:

Default: Highest Star Rating



Brand:

Please Select



## Aldi Christmas Launch Ad 2020 (Kevin The Carrot)

Aldi



Star Rating:  
Exceptional



1.47  
Spike Rating:  
Exceptional



65  
Fluency Rating:  
Good

Total Spend:  
--

First Aired Date:  
6/11/2020



## A Comfy Carol

DFS



Star Rating:  
Exceptional



1.53  
Spike Rating:  
Exceptional



72  
Fluency Rating:  
Strong

Total Spend:  
--

First Aired Date:  
9/11/2020



## Love, Passion & Care

Thorntons



Star Rating:  
Exceptional



1.52  
Spike Rating:  
Exceptional



76  
Fluency Rating:  
Strong

Total Spend:  
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First Aired Date:  
6/11/2020



## Christmas UK Advert 2020

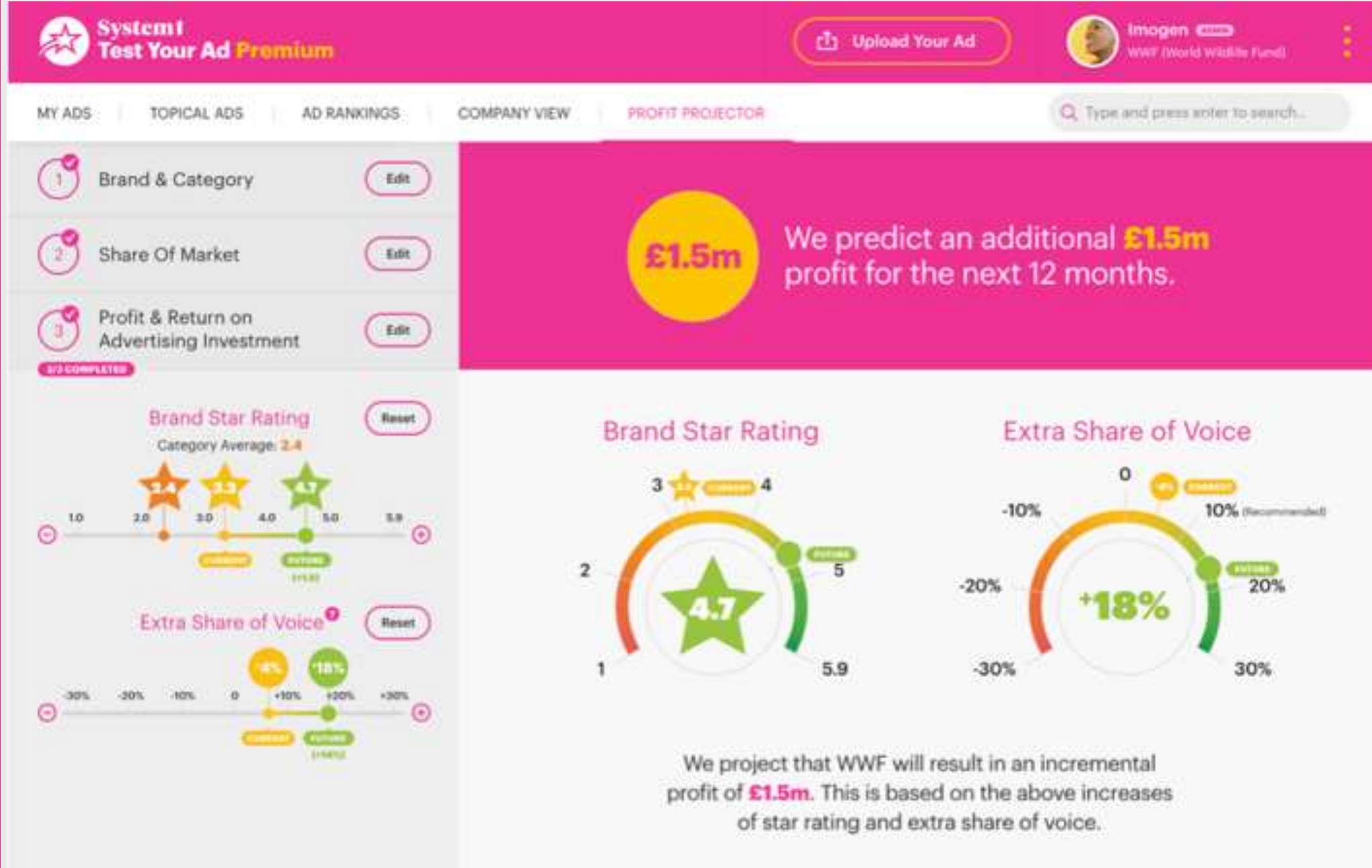
Sky Cinema



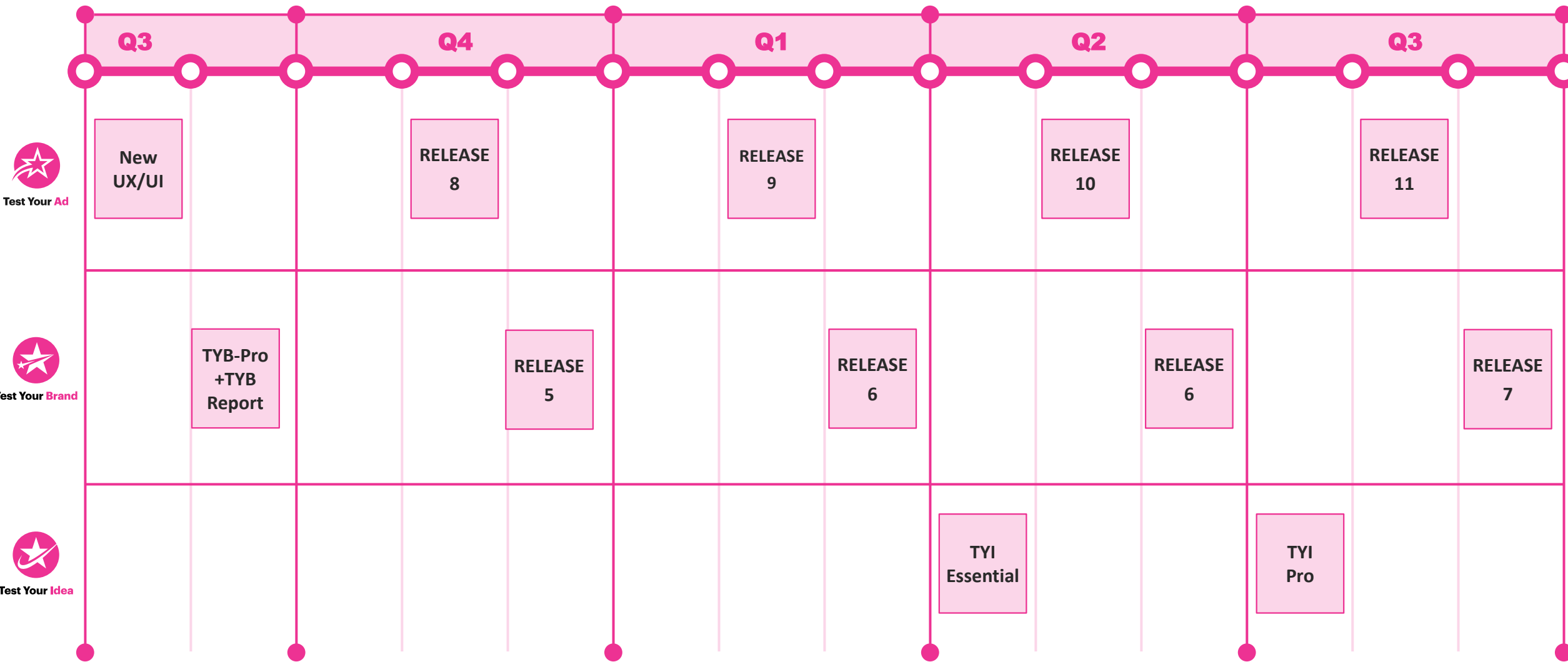
# Profit Projector

A Brand new Test Your Ad feature is the Profit Projector. Based on inputting key Share of Market and Share of Voice data we are able to forecast your predicted future share based on the strength of your new Star rating (vs the category average).

If you input agency cost, production cost and gross margin information we are also able to translated this into a projection of Profit for the following 12 months to help you make the financial case for creativity



# Test Your Roadmap | Major releases 20-21



**System1 A.I.**

**The Economics,  
Ideas & Initiatives**



# Prediction Machines



**The Simple Economics of  
Artificial Intelligence**

## Fame



**AOTW = 6 new client wins**

A screenshot of a video player from 'LIONS LIVE'. The video shows a man with glasses and a blue shirt speaking. The title of the video is 'Where the lemons bloom' by Orlando Wood, System 1. There is a 'MAKE IT WARC' logo in the bottom right corner of the video frame.

**x78 Lemon Presentations (500% increase)**  
**11 high quality articles p.m (50% increase)**



“System1 are special because you’ve looked at creativity in a far more detailed way.

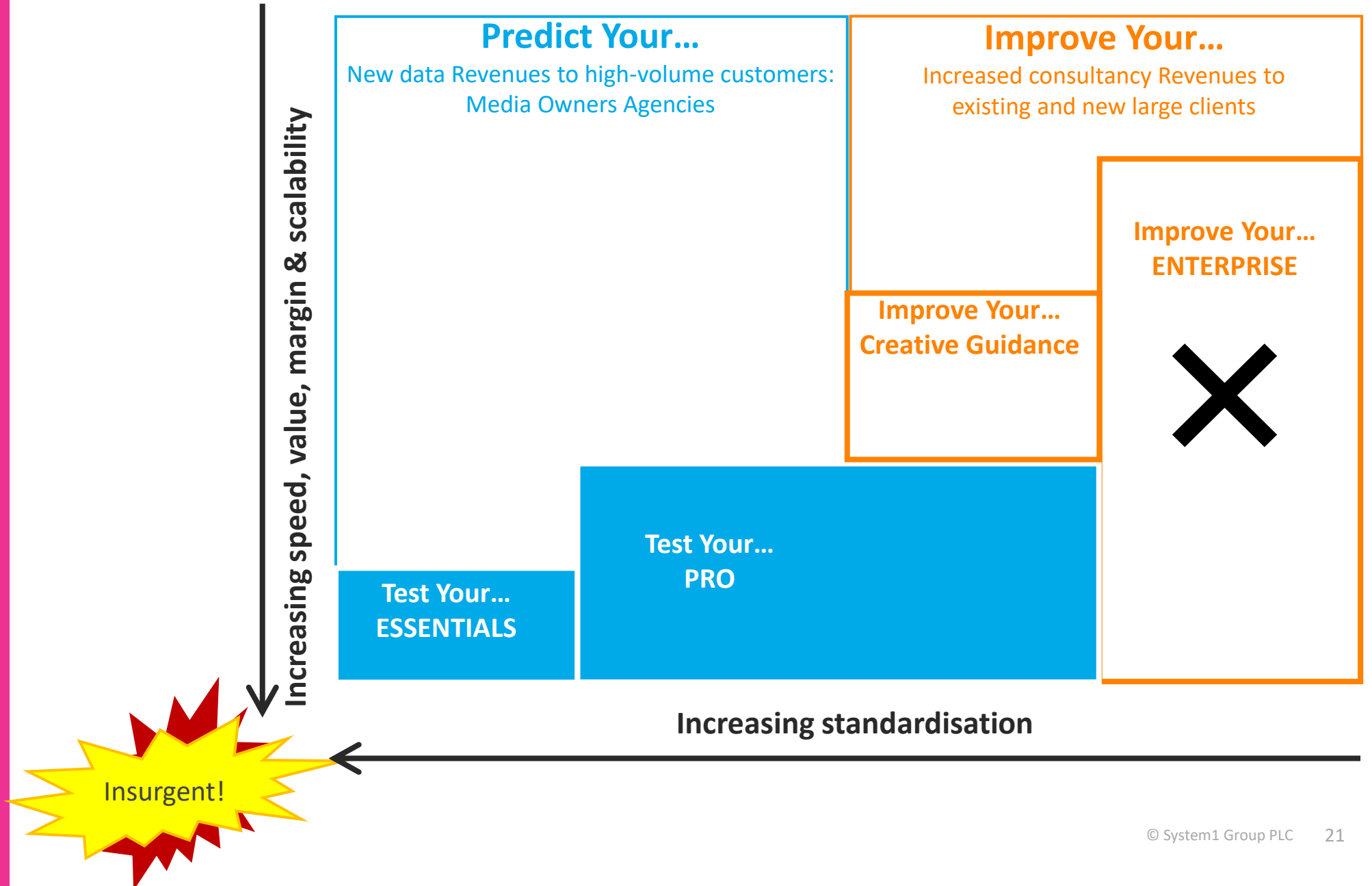
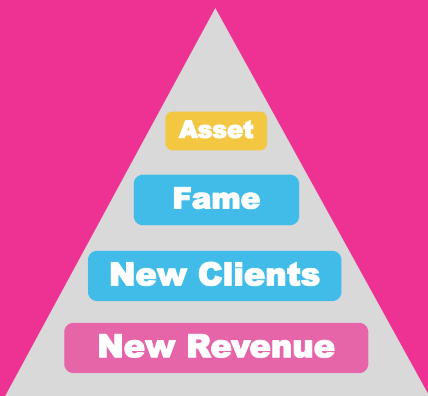
You’ve balanced the creativity / media thing, you’ve done it on an effectiveness basis.

You’re not paying me as far as I know, so I endorse System1, I think the work is great.”

Mark Ritson

# Blue 'Predict Your' data + Yellow 'Improve Your' consultancy on top

**New  
Clients  
Revenues**







**We do not sell custom  
market research**



**We sell predictive data &  
supporting consultancy**

## 5 Reasons why you should work with us

1. **Predictive** – our measures have been proven over many years to accurately predict both short & long term results in market
2. **Validated** – don't take our word for it. We have validated our predictions with in market results to prove a close correlation between Star rating & market share
3. **Actionable** – our creative guidance is clear & helps you improve the effectiveness of your Ad and deliver better results regardless of channel and market
4. **Automated** – Ad testing results in 24 hours in many markets and allows you to benchmark vs all your competitors in a cost efficient way
5. **People** – last but not least, a very experienced, talented team who have worked in your category



## Pricing principles

- ★ We price to drive aggressive market penetration via our data products
- ★ Our global ratecards will be simple and completely transparent
- ★ We will offer a modular approach to allow clients to flexibly deploy our data and consultancy
- ★ We only ever offer price support on our data products and this will be based on a clear volume commitment as scale is the enabler of a lower unit price
- ★ As and when we increase the value delivered through a product or service we will increase the price accordingly to reflect that value



## Test Your Ad | Offer specification and global Ratecard

### **Test Your Ad Essential**

The Essential predictors  
of your Ad's success

- ★ n=150 Nat Rep sample
- ★ Star - long term potential
- ★ Spike – short term potential
- ★ Fluency – strength of branding
- ★ FaceTrace® second by second emotion
- ★ FluencyTrace® second by second branding
- ★ 24-hour results delivered in online portal, with tailored report

**£2,000**  
**€2,200**  
**\$3,000**

Per Ad  
24hrs

### **Test Your Ad Pro**

Prediction and Diagnostics  
for your Ad

In addition to 'Essential'

- ★ Nat Rep and Custom sample
- ★ Types of happiness
- ★ Reasons for emotion
- ★ Associations with the Ad
- ★ Left & Right Brain features
- ★ Fluent Devices
- ★ 24-hour results delivered in online portal, with tailored report

**£4,000**  
**€4,400**  
**\$6,000**

Per Ad  
48hrs

### **Test Your Ad Creative Guidance**

Everything you need to  
improve your Ad's success

In addition to 'Pro'

- ★ Expert Creative Guidance
- ★ PowerPoint de-brief from expert
- ★ Results delivered in 48 hours

**+£6,000 to Pro**  
**+€6,600 to Pro**  
**+\$9,000 to Pro**

Per Ad  
+48hrs

### **Test Your Ad Premium**






Track company, competitors  
& category Ad effectiveness

- ★ Access up to 40,000+ TV Ads
- ★ Every TV Ad for the past 4 years
- ★ All major advertised categories in the US & UK
- ★ Star-Spike-Fluency, FaceTrace™ FluencyTrace™ & Ad Spend
- ★ Advertising performance (spend-weighted) by Company, Brand & Ad
- ★ Any new TV Ad tested & added to the database within 24 hours

**£24,000**  
**€26,400**  
**\$36,000**

1 Category, 1 Market per annum  
New Ads Daily

## Test Your Proposition has already led to increased Big-Pitch wins

	2020/21 Big Pitches vs. 2019/20	2020/21 % Increase in Win-Rate	 Tech Wins 20/21	 Media Wins 20/21	 Financial Wins 20/21	 Auto Wins 20/21	 CPG Wins 20/21
Test Your <u>Ad</u>	x3	+64%	3	5		1	6
Test Your <u>Brand</u>	x2	+50%				2	3
Test Your <u>Idea</u>	Same	Same			1		3



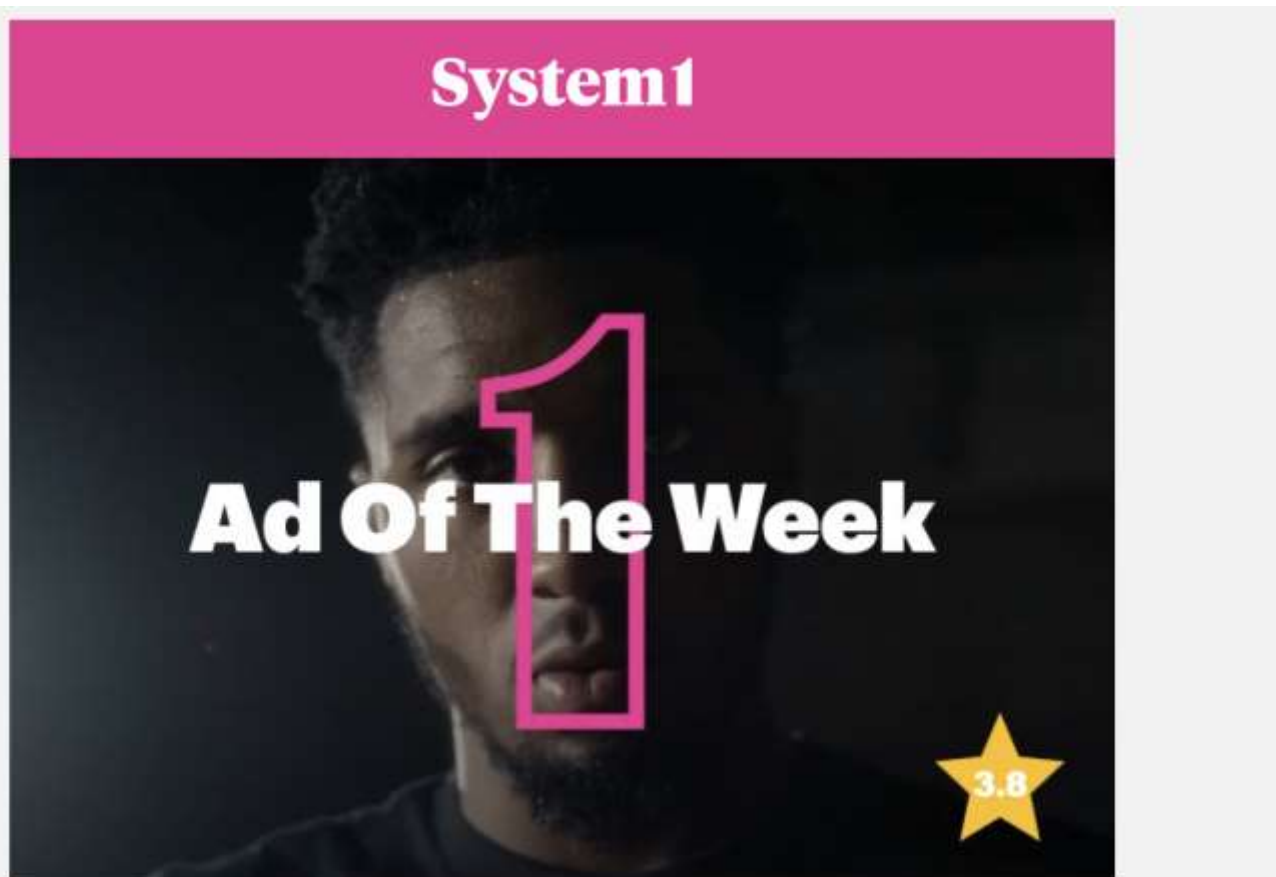
| It started with a talk in EFF Week ...

System1





| Started & probably won with an Ad of the Week



## Adidas Seizes The Sporting Moment

Our Ad Of The Week is "Ready For Sport" by Adidas, the latest in their campaign celebrating the return of sport after lockdown.



**Star Rating**  
Good



**Spike Rating**  
Exceptional



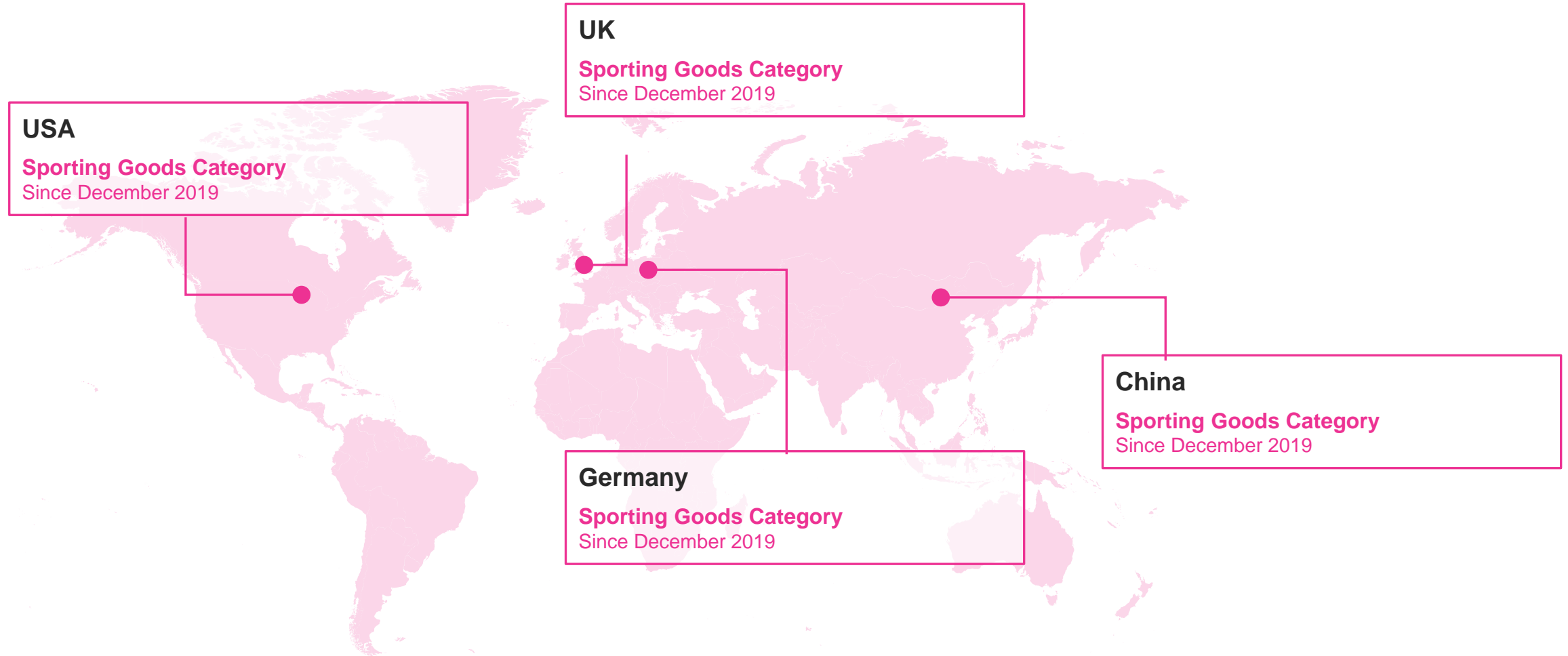
**Fluency**  
Exceptional

For more analysis of the ad, its performance, and how the direct approach can sometimes pay dividends, check out the [full post](#).

[Read the full post](#)



# | 4 Core Markets, including Sporting Goods Category Db/Subscription 8 Campaigns a year = 75% Blue Data Sales & 25% Yellow Guidance Sales



**Thank You**

**System1**

The Effectiveness Agency

